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**DISCOVERY MINES
LIMITED**

1979

ANNUAL REPORT

DISCOVERY MINES LIMITED

Directors' Report to the Shareholders:

1979 HIGHLIGHTS

- Production at Gordon Lake (Camlaren) gold property to commence in 1980.
- Sale of investments eliminates all debts.
- New financing planned

GORDON LAKE GOLD PROPERTY

The Gordon Lake gold property is located 60 miles northeast of Yellowknife, Northwest Territories. Discovery's direct interest in this property is 66 2/3%, and, through its 66% holding of Camlaren Mines Limited, its indirect interest is an additional 22%, for a total direct plus indirect interest of approximately 89%. The property has been leased to Noranda Mines Limited and Pamour Porcupine Mines Limited and these companies are providing the funds to place the property into production. Preproduction expenditures are estimated at some \$5 million. First cash flow from production will be applied to the recoupment by Noranda and Pamour of the preproduction costs, pro rata with the payment to Discovery of \$600,000 for previous expenditures by Discovery on the Gordon Lake property. After all cost recoupment, cash flow will be divided 70% to Noranda and Pamour, 20% to Discovery and 10% to Camlaren until 50,000 tons of ore have been milled. Thereafter, profits will be divided 60% to Noranda and Pamour, 26.7% to Discovery and 13.3% to Camlaren. Discovery's direct plus indirect interest in profits will be 26.6% for the first 50,000 tons milled and thereafter it will be 35.5%.

The property is developed with a shaft to 838 feet. Plans call for deepening the shaft to 1,050 feet, with mining levels at 600 feet, 800 feet, and 1,000 feet. A 150 ton per day cyanide mill is being installed. Mining Corporation of Canada, a Noranda Group member, is the contractor and is also leasing all of the major equipment items to the project. Subsequent to the year-end all necessary permits had been obtained, and we have recently been advised that all of the equipment and supplies required for production have been delivered to the property by winter truck road. Production will commence by the fourth quarter of 1980.

Estimated reserves to a depth of 1,000 feet, diluted to a minimum five foot mining width, are 56,000 tons averaging 0.62 ounces gold per ton, including 5,696 tons averaging 0.42 ounces gold per ton on the surface stockpile. If results on the 1,000 foot level are sufficiently encouraging, the mine will be developed deeper.

CORPORATE DEVELOPMENTS

In February 1979, Discovery purchased 390,000 shares of Rayrock Resources Limited from Ashland Oil Canada Ltd. at \$1.80 per share. The purchase was financed with a bank loan. In December of 1979 and January 1980, Discovery sold 400,000 common shares of Rayrock and realized sufficient proceeds from the sale to retire all of the Company's indebtedness. During the year Discovery also purchased 100,000 voting preferred shares of Rayrock, and after giving effect to these transactions, Discovery now holds 30.14% of the voting rights of Rayrock.

DISCOVERY MINES LIMITED

It is planned to raise some \$1,000,000 of new equity money for Discovery with a fixed price offering on the Toronto Stock Exchange. Subject to suitable market conditions, the offering will take place before mid-year.

OPERATIONS

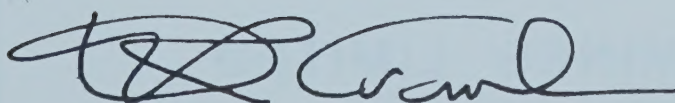
Discovery's net income from oil production amounted to \$84,882. The Company has a 10.684% working interest in the Willey Unit, located in southwest Ontario, which generated a net income of \$30,027 for Discovery from a total production of 42,286 barrels. Remaining recoverable reserves are estimated at 450,000 barrels with 1992 expected to be the final year of operation. Discovery also has a small interest in the Redwater pool, in Alberta, which provided net income of \$54,855.

Discovery holds the LaForma gold property in the Yukon Territory and a 50% interest in Johnsby Mines, a gold prospect in the N.W.T. Both properties were extensively described in the 1978 annual report. Seven claims at the east end of the LaForma property have been optioned to Esperanza Explorations Limited of Vancouver. These claims cover part of a breccia pipe and porphyry type occurrence discovered in 1975. Esperanza can earn an 80% interest in the claims by making cash payments to Discovery totalling \$100,000 and completing exploration work in the amount of \$500,000. Discovery would then have the right to participate as to a 20% working interest or convert to a 3% gross royalty interest.

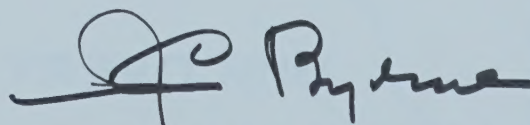
Discussions are proceeding reference leasing or a direct participation by Discovery on the main part of the LaForma property comprising 25 claims which contain extensive underground workings on the G-3 Zone, where veins in a shear zone contain reserves estimated at 68,500 tons with an average grade of 0.44 ounces per ton. Diamond drilling below the deepest adit level has indicated possible additional reserves.

At the Johnsby property there is a large low grade gold deposit, in part mineable by open pit. Reserves are estimated at 13,000,000 tons averaging .085 ounces gold per ton, or 20,000,000 tons averaging .053 ounces per ton, to a depth of 600 feet. The deposit is open to depth. Some major companies are examining the Johnsby data.

On behalf of the Board

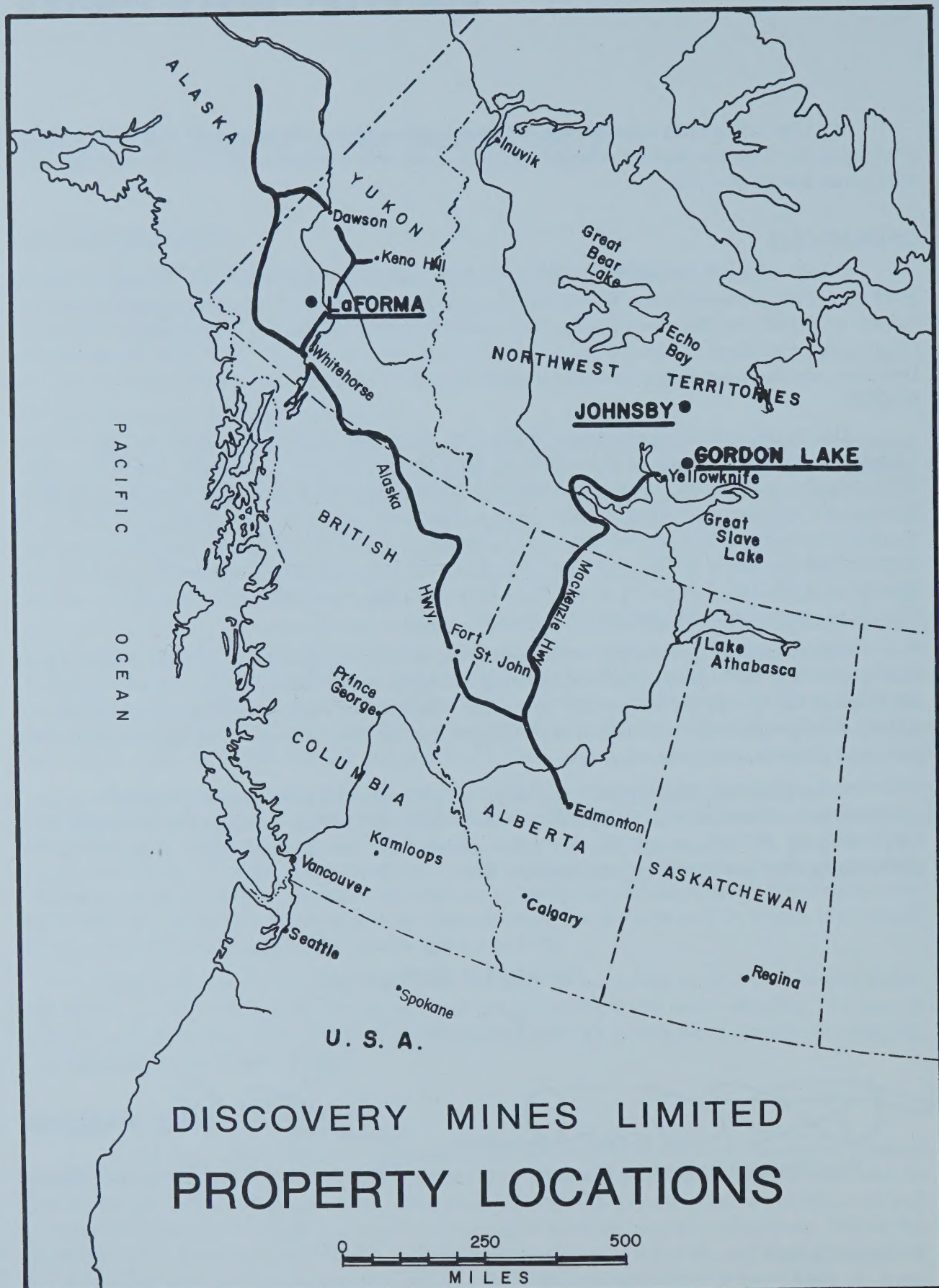


President and Operations Manager



Chairman and Chief Executive Officer

Toronto, Ontario
April 10, 1980



Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Discovery Mines Limited as at December 31, 1979 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 14, 1980

COOPERS & LYBRAND
Chartered Accountants

DISCOVERY MINES LIMITED

Consolidated Balance Sheet

ASSETS

	1979 \$	1978 \$
Current Assets		
Cash	13,331	32,069
Accounts receivable and prepaid expenses	14,477	35,361
Income taxes recoverable	11,000	—
	<u>38,808</u>	<u>67,430</u>
Amounts due on sale of mine equipment	<u>—</u>	<u>12,500</u>
Long-term investments (notes 1(b) and 2)	<u>2,004,005</u>	<u>1,181,867</u>
 Mining properties (notes 1(c), 1(d) and 3)		
Mining claims	342,615	342,615
Furniture and equipment	596	745
Deferred exploration and development expenditures	<u>1,113,862</u>	<u>1,113,730</u>
	<u>1,457,073</u>	<u>1,457,090</u>
 Petroleum and natural gas leases — at cost, less accumulated depletion of \$37,116 (1978 — \$9,563) (notes 1(c) and 1(d))	<u>254,883</u>	<u>282,437</u>
	<u>3,754,769</u>	<u>3,001,324</u>

DISCOVERY MINES LIMITED

as at December 31, 1979

LIABILITIES

	1979 \$	1978 \$
Current liabilities		
Bank indebtedness (notes 4 and 10)	802,000	100,000
Accounts payable and accrued liabilities	15,969	10,147
Due to Rayrock Resources Limited	215,200	194,074
	<u>1,033,169</u>	<u>304,221</u>
Minority interest	29,868	31,515
	<u>1,063,037</u>	<u>335,736</u>

SHAREHOLDERS' EQUITY

Capital stock (note 5)		
Authorized —		
2,000,000 preference shares of \$1 par value		
6,000,000 common shares of no par value		
Issued and fully paid —		
3,538,773 common shares	3,398,773	3,398,773
Contributed surplus	506,774	506,774
Deficit	(1,213,815)	(1,239,959)
	<u>2,691,732</u>	<u>2,665,588</u>
	<u>3,754,769</u>	<u>3,001,324</u>

Signed on behalf of the Board

G. E. O'SHAUGHNESSY, Director
W. STEUERMAN, Director

DISCOVERY MINES LIMITED

Consolidated Statement of Deficit

For the Year Ended December 31, 1979

	1979 \$	1978 \$
Deficit — beginning of year		
As previously reported	1,249,517	1,176,794
Prior period adjustment of minority interests (note 8)	(9,558)	(9,558)
As restated	1,239,959	1,167,236
Net (earnings) loss for the year	(29,305)	72,723
Share of retained earnings adjustment of significantly influenced company	3,161	—
Deficit — end of year	<u>1,213,815</u>	<u>1,239,959</u>

Consolidated Statement of Operations

For the Year Ended December 31, 1979

	1979 \$	1978 \$
Income		
Revenue from petroleum operations	169,571	47,055
Investment income	3,268	1,709
Gain on sale of fixed assets	232	10,365
Gain on sale of investments	111,873	35,316
	<u>284,944</u>	<u>94,445</u>
Expenses		
Cost of petroleum production	86,537	23,723
Bad debts	32,000	—
Head office	53,769	18,905
Bank interest	94,790	15,549
Depreciation and depletion	27,703	9,749
	<u>294,799</u>	<u>67,926</u>
Earnings (loss) before the undernoted items	<u>(9,855)</u>	<u>26,519</u>
Income taxes recoverable	<u>13,909</u>	<u>—</u>
Share of earnings determined by the equity method	<u>25,251</u>	<u>1,517</u>
Earnings before extraordinary item	<u>29,305</u>	<u>28,036</u>
Extraordinary item	<u>—</u>	<u>(100,759)</u>
Earnings (loss) for the year	<u>29,305</u>	<u>(72,723)</u>
Earnings per share before extraordinary item	<u>\$0.01</u>	<u>\$0.01</u>
Earnings (loss) per share for the year	<u>\$0.01</u>	<u>(\$0.02)</u>

DISCOVERY MINES LIMITED

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1979

	1979 \$	1978 \$
Source of working capital		
Proceeds on issue of treasury stock	—	210,000
Proceeds on sale of fixed assets	232	10,365
Proceeds on sale of investments	129,328	86,204
Current portion of amounts due on sale of mine equipment	—	12,500
	<u>129,560</u>	<u>319,069</u>
Use of working capital		
Current operations (note 7)	67,650	9,413
Advances to Avoca Mines Canada Limited	198	283
Development expenditures — deferred	132	130
Purchase of investments	819,150	—
Purchase of oil and gas properties	—	292,000
	<u>887,130</u>	<u>301,826</u>
Decrease (increase) in working capital	<u>757,570</u>	<u>(17,243)</u>
Working capital deficiency — beginning of year	<u>236,791</u>	<u>254,034</u>
Working capital deficiency — end of year	<u><u>994,361</u></u>	<u><u>236,791</u></u>

DISCOVERY MINES LIMITED

Notes to Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 1979

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Camlaren Mines Limited and Botha Lake Mining Corporation Limited. The accounts of a subsidiary company, Avoca Mines Canada Limited, have not been consolidated herein because the company is currently being supported by the government of Ireland and increases in equity are not likely to accrue to the parent company. Investments in significantly influenced companies are accounted for by the equity method.

(b) Long-term investments

The investment in shares of significantly influenced companies is carried at cost adjusted by the company's share of their earnings or losses since significant influence was obtained.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

Costs incurred in exploring for oil and gas, including participations in joint ventures, are capitalized until completion of the particular exploration programme, at which time the costs of dry holes are written off. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.

(d) Depreciation and depletion

Depreciation on equipment is provided on a declining balance basis at a rate of 20% per annum. Depletion of oil and gas properties and drilling costs is determined partly by the unit-of-production method based on proven reserves and partly on a straight-line basis over 144 months.

2. LONG-TERM INVESTMENTS

(a) This item comprises:

	1979 \$	1978 \$
Investment in companies accounted for by the equity method —		
Common shares (notes 1(b) and 2(b))	1,898,854	11,515
Preference shares	100,000	—
Debentures	1	1
	<u>1,998,855</u>	<u>11,516</u>
Other investments — at cost —		
Shares (notes 1(b) and 2(c))	5,150	1,170,351
	<u>2,004,005</u>	<u>1,181,867</u>

- (b) During the year, due to the disposal of a block of shares held by another investor, the company attained significant influence over Rayrock Resources Limited. This investment is now accounted for by the equity method. The quoted market value of the shares in companies accounted for by the equity method is \$3,417,000 (1978 — nil).

DISCOVERY MINES LIMITED

- (c) Other investments consist of listed shares carried at cost of \$5,150 with a quoted market value of \$5,500 (1978 including shares now accounted for by the equity method — \$1,170,351 and \$1,719,500 respectively).
- (d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

3. MINING PROPERTIES

MINING PROPERTIES

	1979 \$	1978 \$		
(a) Mining claims acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost, less amounts written off:				
32 claims Whitehorse, Yukon Territory	69,312	69,312		
27 claims Discovery, N.W.T.	1	1		
21 claims Gordon Lake Area, N.W.T.	273,300	273,300		
Sundry	2	2		
	<u>342,615</u>	<u>342,615</u>		
(b) Deferred exploration and development expenditures (note 1(c)):				
	Balance December 31, 1978 \$	Expenditure during year \$	Written off \$	Balance December 31, 1979 \$
Camlaren Project	<u>1,113,730</u>	<u>132</u>	<u>—</u>	<u>1,113,862</u>

On November 14, 1979, the company and Camlaren Mines entered into a tentative agreement with Noranda Mines (Noranda) and Pamour Porcupine Mines (Pamour) wherein Noranda and Pamour would have the right to put into production the gold mining property situated on Muir Island in Gordon Lake, Northwest Territories. The company has direct and indirect interests totalling approximately 89% in the mining property.

- (c) The company is in the process of exploring and developing its mineral properties. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development and upon future profitable production.

4. BANK INDEBTEDNESS

The bank has been given a general assignment of book debts and 1,340,000 shares of Rayrock Resources Limited as collateral for bank indebtedness.

5. CAPITAL STOCK

- (a) During the year, the company increased its authorized capital by the addition of 2,000,000 common shares of no par value and the creation of 2,000,000 preferred shares of a \$1 par value.
- (b) Subsequent to the year-end, 16,857 common shares were issued at an assigned value of \$1 each in respect of the purchase of all remaining outstanding shares of Botha Lake Mining Corporation Limited.

DISCOVERY MINES LIMITED

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

- (a) Directors and senior officers, as defined in The Business Corporations Act (Ontario), received direct remuneration in the year ended December 31, 1979 of \$2,500 (1978 — \$2,500).
- (b) Rayrock Resources Limited pays substantially all the remuneration of directors and senior officers of the company and other associated companies, and is reimbursed by these companies for their proportionate share thereof.

7. USE OF WORKING CAPITAL IN CURRENT OPERATIONS

	1979 \$	1978 \$
(Earnings) before extraordinary item	(29,305)	(28,036)
Items not affecting working capital —		
Depreciation and depletion	(27,703)	(9,749)
Gain on sale of investments	111,873	35,316
Gain on sale of fixed assets	232	10,365
Share of earnings determined by the equity method	25,251	1,517
Amounts due on sale of mining equipment written off	(12,500)	—
Other	(198)	—
	<u>67,650</u>	<u>9,413</u>

8. PRIOR PERIOD ADJUSTMENT

The minority interest in subsidiaries has been retroactively adjusted to reflect their portion of the book values of the subsidiaries.

9. INCOME TAXES

- (a) The company has approximately \$1.8 million of deferred exploration and development expenditures available for income tax purposes which may be applied against income of future periods.
- (b) The company has losses carried forward for income tax purposes of approximately \$205,000 which expire as follows:

	\$
1981	77,000
1982	122,000
1984	6,000
	<u>205,000</u>

10. SUBSEQUENT EVENT

Subsequent to the year-end, the company sold 400,000 shares of Rayrock Resources Limited for proceeds of approximately \$1,000,000. These funds were used to retire the bank indebtedness in its entirety and the bulk of the amount due to Rayrock Resources Limited.

